

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PA-02 USIA-15

PRS-01 /070 W

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R 102228Z JAN 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9036

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

UNCLAS SAN JOSE 0134

GUATEMALA ALSO FOR ROCAP

E.O. 11652: NA

TAGS: ETRD EFIN CS

SUBJECT: PRELIMINARY REACTION TO CONSUMPTION TAX INCREASES

1. AS COULD BE EXPECTED THE JANUARY 8 ANNOUNCEMENT OF THE
RIS IN SELECTIVE CONSUMPTION TAXES WAS GREETED BY
CONSIDERABLE FUROR BY LOCAL MANUFACTURERS AND BUSINESSMEN.
HOWEVER, SOME MERCHANTS WHO HAVE LARGE INVENTORIES ARE
WORRIED MORE ABOUT INSURING THAT THE NEW TAX RATES WILL
NOT BE APPLIED TO MERCHANDISE ALREADY IN TRANSIT, IN THE
CUSTOMS HOUSE OR UNDER CONSTRUCTION THAN THEY ARE ABOUT
FUTURE PURCHASES.

2. INDUSTRIAL CHAMBER PRESIDENT RICHARD BECK SEEMS TO FEAR
THE EFFECT THIS NEW MEASURE WILL HAVE ON LOCAL SALES AND
EMPLOYMENT AND ON AN ALREADY THREATENED NATIONAL
RECESSION. HE BELIEVES THEY APPLY TO TOO BROAD A
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SPECTURM OF PRODUCTS AND THAT THE GOVERNMENT SHOULD

HAVE BEEN MUCH MORE SELECTIVE IN COMPILING THE LIST OF TAXABLE ITEMS.

3. THE PRESIDENT OF THE CHAMBER OF COMMERCE, FERNANDO GOICOECHEA, FEARS THAT THE MAJOR EFFECT OF THE NEW RATES WILL BE TO AGGRAVATE INFLATION SINCE COSTA RICANS ARE KNOWN TO BUY, WHATEVER THE PRICE IS. HE SAYS THAT IT IS EQUALLY IMPORTANT FOR THE GOVERNMENT TO DO ITS PART BY HOLDING DOWN PUBLIC SPENDING IN 1975.

4. LEADING AUTOMOBILE IMPORTER, CARLOS LACHNER, FEARS THAT NATIONAL AUTOMOBILE ASSEMBLY PLANTS WILL HURT MOST OF ALL BY THE NEXT TAX RATE WHICH IS 100 PERCENT FOR ALL BUT THE SMALLEST MODELS. THE CHEAPEST CAR, A DATSUN A-100, WHICH HAS A C.I.F. VALUE OF \$1600, WILL COST \$7026 DELIVERED. THE RISE IN COST IS ESPECIALLY IMPORTANT WHEN ONE CONSIDERS THAT CONSUMER CREDIT REGULATIONS WHICH WILL GO INTO EFFECT IN MARCH WILL REQUIRE PAYMENT IN CASH FOR IMPORTED AUTOMOBILES.

5. THE PRESIDENT OF THE CHAMBER OF IMPORTERS CLAIMS THAT "NUMEROUS FACTORIES WILL HAVE TO CLOSE FOR LACK OF SALES." HE CALCULATES THAT THE NEW TAX RATES WILL CAUSE A 20 PER CENT DROP IN AUTO SALES ALONE. A MAJOR EDITORIAL IN LA NACION SAYS THE NEW CONSUMPTION TAX IS ONE OF A DOZEN MEASURES TAKEN WITHIN THE LAST YEAR "ALL OF WHICH PUT PRESSURES ON THE COSTS OF PRODUCTION OF ENTERPRISES AND FORTIFY THE RANGE OF ACTION OF THE STATE." LA NACION ALSO OBSERVES THAT THE TAX WILL LOWER THE LIVING STANDARDS OF THE MIDDLE CLASS AND WILL DO LITTLE TO COMBAT INFLATION UNLESS GOVERNMENT EXPENDITURES ARE REDUCED AND MONETARY EXPANSION IS CURBED.
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